

CAN INDIA BALANCE?

INDIA'S MOTIVATIONS AND LIMITATIONS TO CHECK CHINA'S RISE

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If there is one prospect that sends the shivers through Asian capitals it is that of a new Sinocentric order. Even if some governments consider the rise of China as an opportunity, most countries fear the possibility of a strategic landscape in which they are no longer able to defend their territorial interests, their sovereignty, and their economic autonomy. From that perspective it remains critical to keep China's rise in check. Thus far, the United States, flanked by countries like Japan and Australia, has taken the lead. Its military preponderance has been critical in mitigating strategic uncertainty in the region, but it has of course also prompted China to expedite its search for military power. If China continues to be successful in that endeavour, the America-led balancing formation will inevitably be challenged. In the long run, it seems thus that a rising China can only be checked if another major power stands up and that power must be India. India alone is able to throw enough ungainly weight into scales.

India has a strong interest to balance China. In my book *China and India: Prospects for Peace*, finalized five years ago, I concluded that the two Asian giants will not be able to grow together without conflict. But what if one of them fails to perform? This paper argues that we should not take for granted that India will be able to balance China's rise. Even though there is enough at stake for the country to act as a balancer, it continues to fail to play this role effectively. This is because India got stuck between non-alignment and non-performance. On the one hand, it resists the prospect of a new coalition that balances China from the maritime fringes of Eurasia, especially if that coalition is led by the United States. On the other hand, it has failed embarrassingly to strengthen its own capabilities. Its military power lags increasingly behind China's, its efforts to reach out to both East and Central Asia ended in disappointment, and its economic reforms have gone nowhere. As a result of that economic underachieving, India finds itself also torn between emotional nationalism and paralyzing political fragmentation, which, on its turn, will further complicate its role as a regional power.

The causes of discord

India has a strong interest to balance China. It is clear that the balance of power has been tilting at India's detriment. China's economy has paced ahead much faster and that has also allowed it to invest more in its military power and political partnerships in India's neighbourhood. But besides the balance of power there are several factors that make China appear even more as a threat. First among them is the huge need for economic opportunities. Both states remain developing countries with large cohorts poor and potentially destabilizing income gaps. Both states have seen political elites tying their destinies to the ability to bring prosperity to the masses. That manifests itself in a much more challenging international economic climate. The global economic growth rate has never entirely recovered from the dip of 2009, recording an average of 1,6 per cent compared between 2009 and 2013 compared to 3,0 per cent between 1990 and 2009.¹ But there is more. Growth is resulting less and less in new employment opportunities.² Asia's growth in the last years, for instance, has been largely jobless.³ A growing body of research also shows that the share of incomes in developed and developing economies is dropping fast. In addition, in many developing countries, the income increases have been erased by high inflation rates.⁴ As a result, China and India are

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still locked in a contest for manufacturing. Manufacturing is deemed particularly important as a driver of job creation, a catalyst of innovation, and, a crucial asset to avoid large trade deficits. The two countries are also rivalling for natural resources. Since the turn of the century, imports of fuels have been growing by 35 per cent per year in India and 37 per cent in China, ores by 22 per cent in India and 31 per cent in China, agricultural products by 14 per cent in India and 20 per cent in China.⁵

One particular natural resource concerns the shared rivers. China and India struggle with pressing water shortages. If China reached the current development level with 2,093 cubic meters of freshwater annually available for each citizen, India has only 1,184 cubic meters with a population that is set to expand spectacularly.⁶ It comes to no surprise then that Delhi anxiously watches China's infrastructure plans on the upper reaches of the Brahmaputra, called Yarlung Tsangpo until it reaches the contested border with India. More than 185 people in India and Bangladesh depend on the Brahmaputra. China is continuing to build hydropower dams on the river, but these will not have reservoirs, so that the water can flow through. To reassure India, it signed agreements in 2008, 2010, and 2013 to provide flood-season data. For the time being, a plan to divert over 200 billion cubic meters of water to from Tibet to Chinese coastal cities has been put on hold, but experts claim that it is China's right still to go on. Already, and more stealthily, numerous smaller dams and irrigation canals are being built to supply the growing towns and expanding croplands along the eastern part of the Yarlung Tsangpo.

That leads us to perhaps the most sensitive conflict: the border. In 2005, Delhi and Beijing reached an important agreement on political parameters for the settlement of the border disputed in the three sectors – Aksai Chin in the west, the middle sector, and Arunachal Pradesh in the east. But after 16 rounds of boundary negotiations, no final settlement is in sight. The hope is still for a grand bargain in which China retains control and receives sovereignty over Aksai Chin and India over Arunachal. But this remains politically very sensitive. “Any such swap,” a Chinese diplomat avowed, “would be political suicide on the Indian side and very badly received on the Chinese side.”⁷ Furthermore, differences remain over how to draw the line of actual control. Tensions in the western sector highlighted this. In 2013, India accused China of building bases on its part, in the Daulat Beg Oldi Sector, a barren unpopulated area in the Depsang plains, but China insisted the line of actual control was about 20 kilometres further to the southwest. That year, Chinese patrols were also found in Chaglagam, a village about 30 kilometres south of the line of actual control in Arunachal Pradesh.

The territorial dispute sustains military competition. Indian politicians continued to emphasize China's military modernization as a security threat. Defence Minister AK Anthony commented that the new Chinese leadership would continue to test India's deterrence.⁸ In the run-up to the 2014 elections, Narendra Modi called for a strong government to counter the threat from China and Pakistan.⁹ Such discourses coincided with shifts in India's military strategy. In December 2009, the India Army Commander acknowledged that he was working on “a proportionate focus towards the western and north-eastern fronts”.¹⁰ So, too, has the Indian Navy embarked on a look-east policy, shifting more resources from the Arabian Sea to the Gulf of Bengal.¹¹ In terms of nuclear doctrine, India sticks to credible minimum deterrent, and, hence, goes on to invest mainly in survivability and accuracy. The Agni-III intermediate-range missile, commissioned in 2011, has become India's main nuclear deterrent against China, featuring a manoeuvrable re-entry vehicle and improved navigation. The development of a nuclear missile submarine, to be commissioned by the end of 2014, is another important step to enhance the survivability of India's nuclear deterrence. While India still figures much lower in China's defence priorities, Chinese analysts and military officers have taken notice of the changes in India's military strategizing: Said Major General Luo Yuan, one of the PLA's uniformed public affairs commentators: “India is the only country in

the world that says that it is developing its military power because of China's military threat.”¹²

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Status matters too. India still considers itself an important regional power with global interests, a regional power also that has a manifest destiny to dominate the Indian Ocean Rim – from Bab el Mandeb to the Strait of Malacca and from Antarctica all the way to Afghanistan, Nepal and Myanmar. To some extent, that aspiration is a legacy of India’s own turbulent past, the experience of vulnerability when the Indian heartland along the river plains in the north was conquered through the mountain passes to Central Asia and, later on, by European colonialists that arrived by the sea. Hence Jawaharlal Nehru’s assertion that: “History has shown that whatever power controls the Indian Ocean, has in the first instance, India’s sea borne trade at her mercy, and in the second, India’s very independence itself.” It is thus crude geopolitics that dictates India to become the dominant power the Indian Ocean Rim, but that has thus also resulted in a more symbolical quest for status. India wants to be a powerful, independent nation. It has tried to advance that objective first through the independence and liberation movement and subsequently through a strategy of non-alignment. In more recent decades, it translated into a rather inconsistent strategy to side intermittently with the Soviet Union and the United States, a relentless pursuit of nuclear capabilities, a push for its own regional organizations, and a strong desire to be recognized as a peer of China, if not by its actual capabilities than at the very least by its potential power.

Finally, India also remains concerned about China’s growing presence in its periphery. That relates of course first and foremost to Pakistan. Since 2009, China provided the Pakistani armed forces with major arms systems, including four frigates, several dozens of JF-17 fighter jets, C-802 anti-ship missiles, and a batch of modernized Al-Khalid main battle tanks. Beijing and Islamabad also started talks for the delivery of six submarines, corvettes, and air-defence missiles. Meanwhile, China continued the construction of the four reactors of the Chashma Nuclear Power Complex and offered a US\$ 6.5 billion loan for two nuclear power plants in Karachi. Cooperation also continued in space, with China launching Pakistan’s first communication satellite and Pakistan opting for the Beidou satellite navigation system. India’s other neighbour, Bangladesh, also developed closer defence ties with China and ordered various new military systems, including tanks, two corvettes, anti-ship missiles, and showed interest in purchasing JF-17 fighters and submarines. China emerged as a major supplier of arms to Sri Lanka, most of them delivered via Pakistan, and provided over US\$ 3 billion of credit to facilitate the development of railway, telecommunication, and infrastructure at the strategic port of Hambantota.

	Indian perceptions	Chinese perceptions
2004	66	56
2005	44	39
2006	36	37
2007	22	45
2008	20	37
2009	30	29
2010	29	30
2011	31	33
2012	30	35
2013	36	23

Table 1. Percentage of respondents considering the other country favourably (percentage). Source: BBC World Poll, N<1000.

It does not come as a surprise then that public perceptions are muted at best. As table 1 shows, Indian views never recovered after the steep drop between 2004 and 2008. Especially in China, views of India have deteriorated remarkably. Indian politicians also keep up the pressure on the government to stand strong. Between 2009 and 2013, about 185 questions about China were asked in the Lower House, most of them related to trade disputes and the border issue.¹³ This limits the manoeuvrability of governments. Compromises to China can easily be criticized as an indication of weakness and a lack of leadership. The last two governments of Atal Vajpayee and Manmohan Singh, usually veered around this by adopting an highly ambivalent discourse. The prime ministers themselves, usually highlighted the need for cooperation, especially economic cooperation whenever they met their Chinese counterparts, but responded sharply whenever they were challenged to do so by critical reports in new media or interventions in the parliament related to border incursions or unfair economic competition. The same was true for important cabinet ministers. The one day, a minister of defence might praise a joint exercise, the other day he might call for preparations of a two-front war.

There are several factors that one could expect to mitigate India's rather suspicious attitude and propensity to balance. Liberals would retort, for example, that bilateral trade is on the rise. That is true, but as we will see later on in this chapter, India runs a structural trade deficit with China and the composition of its exports is disadvantageous as well. It is not likely that China and India will develop a mutually beneficial division of labour either. China is determined to stick to its manufacturing, whereas export oriented services in India do create sufficient jobs. One could also assume that the many non-traditional security threats, like piracy and Islamic terrorism, pave the way for cooperation. Reality, though, is rather that India distrusts China's efforts to combat these threats in Central Asia, the north of Pakistan, and the Indian Ocean, and reckons that China could use non-traditional security threats as a pretext for ramping up its military presence around China.

Another element that is often expected to temper conflict is the fact that China and India are both part of BRIC. It is true that China, India, as well as Brazil and Russia share the interest to reform the way the world is governed, to redistribute power within international organizations and to restrain American unilateralism. But China remains ambiguous about its support for India to join the UN Security Council and it is even less clear whether India will, like China, gain from eventual reforms in the International Monetary Fund. Differences also exist with regard to the international trade regime. Until about five years ago, China and India shared a desire to limit the scope of trade liberalization, but as a consequence of its economic success, China is shifting. It already pushes for more free trade in goods, starts to become keener on free trade in services, and continues to mull over the liberalization of its own government procurement and investment. India, meanwhile, is not moving an inch. The same gap becomes visible in financial matters. As China has successfully pushed for a BRIC development fund or bank, mostly to find a new vehicle for its export credit and concessional loans, India is well aware that this could go at the detriment of its own position as economic leader in the Indian Ocean Rim. In short, the more optimistic, liberal arguments fail to hold up. It is competition and balancing that will continue to characterise the Sino-Indian relations.

Military balancing

In the last five years, India has shown a greater penchant for external balancing. With Japan, a Joint Declaration on Security Cooperation was issued in October 2008, which led to various new exchanges on regional security.¹⁴ In 2009, both sides held their first bilateral navy exercise. India has responded positively to Japan's new emphasis on "Indo-Pacific" security cooperation and after the elections of 2014, Prime Minister Narendra Modi quickly highlighted the importance of security cooperation with Japan. Yet, Delhi remained reluctant to support Japan's position on freedom of navigation, the Chinese Air Defence and

Identification Zone, and even more so on the East China Sea dispute. Mutual frustrations have also built up because of the slow progress in two crucial fields of the strategic partnership: investment promotion and nuclear cooperation. With Vietnam, relations have been expanding as well. In 2010, Defence Minister AK Antony promised that India would beef up Vietnam's defence forces' capabilities and that it would stimulate cooperation with the Vietnamese Navy by means of exercises, port calls, and technical support. In 2013, Delhi offered US\$ 100 million in credit for defence purchases. Most significant, however, was India's commitment to stay involved in energy exploration activities in parts of the South China Sea that are also claimed by China, despite Chinese resistance and disappointing economic returns. With the Philippines, a first agreement on defence cooperation was signed in 2006 and in 2013 Delhi and Manila confirmed their interest in cooperation in combating non-traditional threats, disaster management, food security, and pandemics. But compared to Vietnam, security cooperation remains modest. In 2013, two defence agreements were signed with South Korea, envisaging the exchange of defence-related information, cooperation on peacekeeping and humanitarian relief, as well as cooperation on defence technology.¹⁵

What characterizes all these partnerships is that they remained limited in scope and substance. They pale against some of the partnerships established by these partners with one another. One explanation is India's limited capacity. It just does not have the human resources at its Defence and External Affairs Ministries to run a large number of exchanges and practical partnerships. More important, however, is that it does not want to be drawn in the territorial disputes in Eastern Asia. The East China Sea is considered way too distant and Japan's nationalism is also watched with concern. With regard to the South China Sea, India did confirm several times that it has an interest in the freedom of navigation on the high seas, but it refuses to take side. Instead, it called all sides to show restraint and to come to a pragmatic negotiated settlement. Officials veered around the question whether India supports international arbitration, as it is solicited by the Philippines, and stressed that their country would not interfere.¹⁶ "We do not interfere," Indian external affairs minister Salman Khurshid said, "We do believe that anything that is a bilateral issue between two nations must be settled by those two nations." This all seems to confirm India's traditional opposition to alliances and the efforts of the Congress-led government to prevent a deterioration of its relations with Beijing. But it also displays India's concern about possible entanglements in Eastern Asian disputes at a time that India's immediate security environment continues to deteriorate.¹⁷

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These reservations are even more outspoken with regard to the United States. Relations with the United States are much more sensitive and this sensitiveness goes right back to the core of non-alignment, that is, the opposition to entangling alliances with the major powers.¹⁸ Politicians from the left and Hindu parties still snub at any agreement that makes India look like a deputy of Washington and waste no opportunity in the Parliament to make government members confirm their allegiance to the non-alignment doctrine. But it also reflects a more sober minded calculation that India's interests are best served by maintaining as much strategic autonomy as possible. Indeed, China is considered a security threat, but one that remains, for the time being, manageable, so that there is no need yet for signing off on security guarantees with others that could lead to more tensions with Beijing and, at the same time, pull India into the strategic rivalry in the Western Pacific. Moreover, even if China's rise is a concern that India shares with the United States, many differences remain, over Pakistan, for example, over Iran, over Russia, international norms on nuclear energy, global trade, human rights, the Middle East, and so forth. Neither is India on the same page when it comes to one of the most divisive issues in the maritime disputes in East Asia: India disapproves America's claim that foreign military vessels are allowed to enter the exclusive economic zones (EEZ) as they please and lodges a complaint each time an American military vessel enters its own EEZ. The Indian military is also loath to enhance interoperability and

has therefore opposed agreements that provide in the use of Indian facilities during military operations (LSA), the use of NATO encrypted communication and hardware (CISMOA), geospatial cooperation (BECA), and technical standards in developing new armament. As a result, India will likely remain reluctant to efforts of the United States to enlist it in a grand alliance.

India hesitates to engage in external military balancing against China and sticks to a policy of non-alignment and strategic autonomy. The quest for autonomy inevitably brings a greater need for internal balancing. India has to shore up its own military capabilities if it wants to maintain its security without the entangling and polarizing alliances. But here India enters the perk with severe constraints as well. A first limitation concerns the official defence budget. Since 2009, defence spending hardly increased, whereas China's grew by 32 per cent. In 2013, China's defence budget was almost four times larger than India's. That year, Beijing increased spending by 11 per cent, whereas Delhi sliced 8 per cent from the budget for 2012-2013. The consequences for India's military power are felt across the different forces.

To defend the line of actual control, Indian ground forces have long been in a disadvantageous position. In the last decade, China has been much faster in developing its infrastructure in the border area, paved roads and built barracks. India has tried to catch up and has successfully accelerated the establishment of its own network of roads and patrol trails, especially in the western sector. The whole of Ladakh is now strewn with small observation post and flimsy trails that move up to strategic passes and heights. Still, China is able to show off its capabilities more forcefully. It has dispatched helicopters, patrol boats, and radar installations all along the most sensitive parts of the line of actual control. Furthermore, in the Tibetan plain, Chinese railways, airports, and roads have been developing fast, so that troops can be easier shuttled in from large bases further north. A lot of excitement followed the decision in 2013, after several years of delay because of budget constraints, to raise a new mountain strike corps of nearly 40,000 troops for the disputed China border by the end of 2016. The division will consist of two infantry divisions specialized in mountain warfare, an air defence brigade, two artillery brigades, and one engineering brigade. It was reported that it would be supported by newly ordered light artillery, attack helicopters, and heavy lift helicopters.¹⁹ But these orders were again put on ice because of budgetary constraints. In 2014, the defence acquisition committee postponed the order of M-777 light howitzers, 22 attack helicopters, and 15 heavy lift helicopters all together. India is also known for the poor state of its infantry combat equipment, ranging from assault rifles, over communication, to infantry combat vehicles. Since 2012, the government started to fill some of these gaps, but at a slow pace and in small batches. The Comptroller and Auditor General (CAG) repeatedly pointed at the lack of modern artillery, anti-tank capabilities, and large enough ammunition stocks for Indian tanks.²⁰

The Indian Navy has also embraced it as one of its main duties to check China's presence in the Indian Ocean. The construction of the large Varsha Navy Base, near to Rambili, on the eastern coast, and the modernization of facilities at Nicobar Island all have to showcase the rebalancing of the navy's capabilities to the east. But spending curbs have also hit the Indian navy hard. Between 2009 and 2013, it only commissioned 6 major surface combatants: one Kolkata Class destroyer, two Talwar B class frigates, and three Shivalik Class frigates. China, commissioned 23 large surface combatants: 6 destroyers, 3 large landing platform docks, and 14 advanced frigates. The ageing fleet and the failure to replace old ships have led to a loss of thousands of days of availability.²¹ These ships have also been plagued by accidents, fires, and blasts, killing over 20 sailors in last year alone. Likewise, China commissioned 18 new submarines, mostly conventional ones, whereas India only built one... and lost one: a potent Kilo submarine that was destroyed in a fire. In 1999, India released a 30-year submarine building programme that provided in the construction of 24 new submarines, but only 14 of these vessels were effectively added, by buying them from Russia. Most of these Kilo-class submarines have already been modernized, but readiness rates for India's existing submarine

fleet sit below 40 per cent, meaning that only 6 to 7 of them can be deployed simultaneously. In 2011, the Auditor General warned that the Navy's force levels were on the decline. "The strength of warships in the Indian navy has been stagnating and despite construction of warships indigenously, the Indian navy is facing large shortfalls against its planned levels." The Auditor General also reported that the navy's aviation was only at 26 per cent of its required force level, that reconnaissance activities were curtailed due to ageing patrol aircraft, that, no anti-submarine aircraft besides two potent P8 Poseidons had been inducted since 1990.²² The government has not been able to approve new orders to replace the 28 dilapidated anti-submarine helicopters. In the same vain, it could not fiat sufficient stocks of air-defence missiles for its surface combatants.²³ The two new aircraft carriers are equally plagued by delays and no armament was ordered for the MiG 29K fighters that will spearhead their air wing.

The Indian air force deployed new capabilities near to the disputed border. The strengthening of Eastern Air Command's capacity has been impressive. The Indian government decided to base squadrons of its most potent fighter jets, the Su-30MKI, in the Eastern Sector from 2009 onwards. The first two squadrons with 36 fighters were based at Tezpur airbase. The shelters and runway of this base were recently renovated.²⁴ In addition to Tezpur, the Indian Air Force is also in the process of upgrading its other airbases in the Eastern Sector. The length of runway at the base in Kalaikunda in West Bengal state has been extended to back forward operations in Arunachal.²⁵ The Command is also refurbishing its forward airbases at Chabua, Jorhat and Hash Mara air bases. Yet, capabilities are still wearing thin. The Indian Air Force reports that it requires 50 squadrons to fight a two-front war, but it only has 34 squadrons compared to the 42 it is supposed to operate and will have 30 of them equipped with advanced Su-30MKI. The order for 126 Rafale fighters is suffering delays and costs soared from US\$ 10.6 billion in 2007 to over US\$ 25 billion. Air defence is another stumbling block. India's air defence continues to be highly centred on zones and bases and only allows for partial air denial. It is just starting to lie out Integrated Air Command and Control Systems and to unfold a Multi-Function Control and Long Range Tracking Radar network.²⁶ India has developed a medium-range Ashkash, and a longer range Prithvi Air Defence (PAD) and Advanced Air Defence (AAD) missile. It will take years, still, before these will be fully deployed.

India wants to balance China across the full range of military capabilities. One could assert that it is more effective to balance selectively, for instance, by building up capabilities where China is the most vulnerable - along its maritime trade routes to the Middle East and Africa. India is certainly trying to position itself as the gatekeeper to the Indian Ocean, but that cannot suffice. First of all, its naval capabilities remain too limited and China too is trying to reduce its vulnerability. More important is that the land border with China is also politically much more sensitive, so that Delhi can just not afford to be seen as losing ground. India has thus to balance comprehensively and that, we have seen, comes as a tremendous challenge.

"Diplomatic balancing"

If India has been reluctant to pursue external military balancing, it did try to respond to China's growing influence in its neighbourhood setting up new multilateral partnerships. To some extent, these hark back to the Look East Policy that was initiated in 1992, but more efforts have been made in the last decade. Very important in that regard are the overtures to the Association of Southeast Asian Nations (ASEAN). "We understand India's potential role as a soft balancer," an Indonesian official remarked, "but we have thus far rather seen as a weak balancer."²⁷ That weakness obviously concerns India's role as a trade partner. If China's share in ASEAN's exports increased from 6 to 11 per cent between 2003 and 2012, India's share grew only from 2 to 3 per cent.²⁸ During the free trade negotiations with the grouping, the Indian government was also not in a position to offer the same early harvest facilities as China presented to some smaller countries to make a similar yet slightly more ambitious deal

palatable. But weakness also relates to political and security cooperation. Officials from the region lament that India is just not able to match China's involvement from the highest-level heads of state gatherings to the informal meetings between experts. One indicator that confirms this observation is India's diplomatic presence in different capitals in the region: A Chinese embassy counts on average three to four times as many diplomats as an Indian embassy.²⁹ Resources also play a role in military diplomacy. In 2013, for instance, the Chinese navy made port calls to eight ASEAN member states, India to five countries. Most important, however, is that Indian leaders have shunned criticism of China's behaviour in the South China Sea. Basically, India has expressed its support for a Code of Conduct for the South China Sea, but in much less forceful wording and much less frequently than, say, Japan, the United States or Australia.³⁰ In the East Asia Summit too, India has called for peace, but much more by highlighting the need for consensus. Delhi also considers the main objective of the Summit to be the promotion of economic development, rather than security issues.

Another forum concerns the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), which includes Bangladesh, Bhutan, Myanmar, Nepal, Sri Lanka, and Thailand. BIMSTEC was set up in 2004, at a time that the Indian government became increasingly concerned about China's growing influence and sought to unlock the landlocked northeast to its neighbourhood. A free trade agreement was to be put in place by 2006. Eight years later, however, an agreement was still not in sight. The same was true for most of the other 13 areas of cooperation. Southeast Asian countries, especially Thailand and Myanmar, do take an interest in BIMSTEC as an opportunity to hedge against China's rise. There are several explanations for its lack of progress. First of all, the countries that it gathers are not known for cordial relations with each other. Relations between India and Bangladesh are complex. So are ties between India and Sri Lanka. Relations between Myanmar and Bangladesh are marred by insecurity. Secondly, its members often compete in the same agricultural sectors. Thirdly, the land bridge between the Indian subcontinent and Southeast Asia is one of the most unstable parts of Asia. Rebel groups, organized crime, and terrorism make it very difficult to deepen trade relations ties. Yet, still, China did manage to overcome similar stumbling blocks in its cooperation with the Mekong Countries. It spearheaded security cooperation and now even guards the whole Mekong River against armed gangs. It solved the connectivity constraints by sinking billions into transportation schemes. It also overcame its neighbours' fear of competition with the farmers from Yunnan, a province that produces many of the crops on which farmers south of the border also depend, by offering loans, promising investment, and facilitating access to its market. India is just not capable of displaying the same leadership in BIMSTEC.

Economic competition

The previous Congress-led cabinet arrived with a promise to decisively break with the sluggish Hindu-rate of growth that had marked the nineties. Economic reforms would be carried out with more vigour and India was expected to grow at 9 per cent per year. If anything characterized the government led by Manmohan Singh it was confidence. At that point in time, it was also assumed that India and China could grow perfectly without competition. Between 2004 and 2007, Indian leaders consistently emphasized the emerging of a mutually beneficial division of labour. The Indian Chamber of Commerce and Industry (FICCI) calculated that China would replace the United States as India's largest trading partner. In answer to anxiety about Chinese goods harming domestic producers, Prime Minister Manmohan Singh stated: "There is a misconception that India and China are competitors, this is not true." The influential Minister of Industry and Trade, Kamal Nath, put it: "It is not an issue of China versus India. It's India and China. We have our genius, they have theirs. While the sheer population numbers alone present an opportunity for both India and China, it is India's demographic profile that holds the key to the future. The India of tomorrow is an India of savers and spenders."³¹ "We are pretty much on the same trajectory from now on," asserted the Chairman of the Planning Commission.³²

The Eleventh Indian Five-Year Plan (2007-2012) confirmed that confidence, but the ten years of economic promises have ended in disappointment. China might have its own problems, but India's performance has come to lag increasingly behind. There were specific failures. The special economic zones, established to attract foreign investment, remained largely empty. In 2013, only 158 out of 558 approved zones were operational. Between 2004 and 2013, India attracted US\$ 23 billion in foreign direct investments; China US\$ 74 billion. The schemes to tackle poverty were flawed too. Poverty rates did drop, but that was only achieved by means of large subsidy campaigns that drove the government deeper in the red figures. By 2013, subsidies for farmers equalled 3 to 4 per cent of India's GDP. Meanwhile, the quality of primary and secondary education only improved slowly. The combat against corruption, another priority on the agenda of the incoming government, turned into another disappointment. The World Bank's governance indicators database, which aggregates many other databanks, reveals a percentile rank on the "control of corruption" of 39 per cent for China and 35 per cent for India.³³ For "regulatory quality" this is 44 and 34 per cent.

If Indian politicians were still confident in 2004 that they could stand the comparison with China, frustration and disappointment now prevail. Between 2004 and 2014, India's GDP grew by 170 per cent, China's by 350 per cent. On a per capita basis, this performance gap is even larger. But there were also important differences in the way growth was generated. In China, investment and current account surpluses drove growth; India's GDP was dominated by household consumption and current account deficits. This had several consequences. To begin with, China's external debt shrank between 2004 and 2013, India's external debt grew from 17 to 21 per cent. China's infrastructure developed rapidly. It invested nine times as much in its manufacturing sector. The total length of its railways grew five times more than India's, its total length of roads two times. It was also the Chinese economy that became much more connected to the internet. By 2013, it had four times more internet subscribers per 100 inhabitants than India. Its investment in research and development was 7 times larger.

That was also reflected in their bilateral trade. Out of a total bilateral trade volume US\$ 65 billion, India ran a deficit of US\$ 34 billion. And even the composition of India's exports remained problematic. About 70 per cent of India's exports in 2013 consisted of raw materials: mostly ores and agricultural products. As much as 96 per cent of China's exports consisted of manufactured goods: machinery, electronics, vehicles, and... much of the fertilizer on which the Indian government relies to keep the countryside stable. One could have expected India to gain in labour-intensive manufacturing, as the wages for its rapidly growing cohorts of workers remain lower than in China. But that was not the case. In 2013, China exported for US\$ 6 billion of labour intensive goods to India, whereas India only shipped for 1.4 billion of those goods to China. Between 2004 and 2013, China's total labour intensive exports grew by US\$ 300 billion, India's by US\$ 20 billion. Interestingly enough, Indian companies deemed China's economy more interesting than the other way around. In 2012, the Chinese government reported a Chinese investment stock of US\$ 657 million in India, whereas Indian companies had invested for US\$ 723 million in China.³⁴

This had important consequences. Asked whether they were satisfied with the country's economic situation, over 80 per cent of Chinese citizens answer yes, compared to less than 50 per cent in India.³⁵ The main concerns relate to employment and inflation. Indeed, between 2003 and 2013 China has created far more jobs and also much more jobs in the formal sector. Manufacturing has made an important difference. Between 2004 and 2011, China generated 16 million manufacturing jobs on top of the initial total of 112 million; India only 3 million on an initial total of 11 million.³⁶ As regards inflation, the impact on Indian citizens was also significantly larger. Between 2004 and 2013, average growth per capita was 6 per cent, but the average inflation rate was 9 per cent. In China this was 10 versus 3 per cent.³⁷ This had repercussions at the political level. Chinese citizens also appear to have far more trust in their government than Indians.³⁸ Economic disappointment may also explain why the two main

parties – Congress and the BJP – have seen their combined share drop election after election: from 94 per cent in 1999 to 56 per cent in 2009. That meant more fragmentation and more difficulties also to reach consensus about economic reforms. The 2014 elections did not change that. Due to the seat allocation system, Modi's BJP ended up with a majority of the seats, but he still only attracted 31 per cent of the votes. The combined share of the BJP and Congress dropped to a new low of 50 per cent.

"It comes not to a surprise then that after a few years of enthusiasm about Chindia, Delhi became more frustrated with the unbalanced partnership."

Indian officials acknowledge that their economic policy has failed, but also point at unfair competition from China. In 2012 and 2013, in its second term, government had to answer about one question related to the trade relations with China in the lower house each week.³⁹ Since 2009, the Indian government imposed as many as 41 anti-dumping duties imposed on Chinese imports.⁴⁰ Premier Manmohan Singh also raised the trade deficit with China several times. Yet, India is able to respond to China's industrial policy or its efforts to continue to prop up export-oriented industries. On the one hand, India is not able to join a large trade scheme like the Trans-Pacific Partnership, because it does not consider comprehensive liberalization in the interest of its economy. In other words: Delhi cannot make the concessions needed to present itself as an interesting partner in such trade blocs. Even in positioning itself as an alternative investment market to countries like Japan, India has been disappointing. Of the tens of billions of Japanese investments that were expected at the beginning of Premier Singh's first term, only a small part has actually found its way to India. In fact, between 2004 and 2013, Japan's investments to China grew annually by an average of US\$ 8.1 billion, to India only by US\$ 1.4 billion.⁴¹

Weakness is a first element that holds India back from challenging Chinese policies that distort trade; fragmentation is the other. In the last years, China has spared no efforts to establish relations with local elites, in the Indian states, and to profile itself as a potential investor and export market. Consider India's largest state. To Bihar, China promised investment in agribusiness, to set up a train manufacturing plant, and to donate US\$ 1 million to a university.⁴² Local ministers were also invited to trade fairs in China.⁴³ Uttar Pradesh was cajoled with an offer to purchase more of its mangoes and to set up an industrial park.⁴⁴ But Uttar Pradesh was not the only state where China offered to build an industrial park. In fact: about six states were pitted against one another for the same park, including the third largest state, Maharashtra.⁴⁵ West Bengal was wooed with the prospect of becoming a major trade bridge between China and the rest of India. In Andhra Pradesh, the local government expected to attract Chinese investors in the telecom sector.⁴⁶ News responded euphoric when a mysterious businessman promised US\$ 160 billions of investment in the state.⁴⁷ Madhya Pradesh was approached with possible opportunities to export traditional pharmaceutical goods, fruits, and... buffalo meat.⁴⁸ Even Narendra Modi, known for its sabre rattling on the border dispute, has been remarkably soft on China. As head of the state of Gujarat, he too was keen to attract Chinese investors and was one of the five states to bid, together with Maharashtra and Uttar Pradesh, for the famed Chinese industrial park.

Instead of a comprehensive strategy that targets Chinese economic power politics, India shows a greater tendency to become an object of that power politics. By no means, India has been able to match China's robust industrial and trade strategies, and with the growing political fragmentation that might be less the case in the future so that local governments will display even more impatience to attract Chinese investors.

Conclusion

The question that arises from the previous sections is whether India can get its act together before it crumbles. There is no doubt that India has an interest to balance China. There is the long-standing border dispute that affects its strategic interests and the prestige of its leaders. There is the contest for prosperity in a context where economic growth globally generates

relatively less benefits in terms of jobs, wages, and government incomes. There is the concern that China will turn its growing economic presence in India's neighbouring countries into political leverage. Indian citizens and politicians do worry about these issues, hence the decreasing levels of trust in China, the numerous questions in Parliament, the anti-dumping procedures, and the military reinforcements along the border. In the run-up to the elections this year, the main parties all vowed to address the unbalanced partnership. "We want India to challenge China as the manufacturing capital!" proclaimed Rahul Gandhi.⁴⁹ "I swear by this land that I will not let this nation be destroyed, I will not let this nation be divided, I will not let this nation bow down," Narendra Modi cried, "China should give up its expansionist attitude and adopt a development mindset."⁵⁰ "Pakistan and China are constantly posing threat to our national borders," the frontrunner of the Indian National Lok Dal Party threw at a rally.⁵¹

But we have heard such nationalistic outcries before, in 2004 and 2009. The truth is that India has remained unable to bridge the gap between discourse and deeds, between Sinophobia and impotence. There are no indications that it will change after the elections, mostly because the deteriorating economic climate and political fragmentation will complicate reforms. All the rest – military modernization and regional leadership – depend on the success of these reforms and the ability to create better jobs for the poor. Meanwhile, India's labour force is set for a rapid expansion. Between now and 2030, the labour force will expand by about 6.5 million workers: 6.5 million workers each year. It is also uncertain what China will do. Its growth is under pressure, so much is clear, but it still manages to externalize much of its problems. Consider the overcapacity in its industry. For all the trade frictions in the last years, the share of its manufacturing output that was exported grew from 18 per cent in 2004 to 34 per cent in 2013.⁵² The eagerness of Indian states to do business with China and the ease with which China cultivates the expectations hints that its efforts to dump the glut of its factories on other markets are not likely to hit major barriers any time soon. So even if India and China are both plagued by economic imbalances and vulnerability, China still seems to be better equipped to keep India at bay as a possible economic rival and thus also to undermine its role as a balancer.

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